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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

December 31, 2012

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(Unaudited)

December 31, 2012

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APPOINTIVE OFFICIALS

Angela Wong, Lottery Director

John Tarr, Lottery Assistant Director for Security

LOTTERY COMMISSION		TERM EXPIRES
Tom Keegan	Helena	January 1, 2014
Beth O'Halloran	Missoula	January 1, 2014
Wilbur Rehmann	Helena	January 1, 2013
Craig Anderson	Glendive	January 1, 2013
Leo Prigge	Butte	January 1, 2015

REPORT DISTRIBUTION

According to Section 23-7-202(9), MCA, copies of this report must be distributed to the following:

Governor – Steve Bullock
Director of Dept. of Administration – Sheila Hogan
Legislative Auditor – Tori Hunthausen
President of the Senate – Jeff Essmann
Speaker of the House – Mark Blasdel

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature". The President of the Senate and the Speaker of the House have requested that this report be distributed to the following committees:

HOUSE – State Administration Committee

Pat Ingraham, Chair
Ted Washburn, Vice Chair (R)
Bryce Bennett, Vice Chair (D)
Liz Bangerter
Joanne Blyton
Clarena Brockie
Frosty Calf Boss Ribs
Pat Connell
Bill Harris
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Jean Price
Casey Schreiner
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Kathy Swanson
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Kendall Van Dyk
Roger Webb

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Debby Barrett
Dee Brown
Tom Facey
Eric Moore
Sharon Stewart-Peregoy
Kendall Van Dyk
Gene Vuckovich

Montana LOTTERY
For the fun of it! 2525 N. Montana, Helena, MT 59601 • P: 406-444-5825 • F: 406-444-5830

March 2013

Montana Lottery Commission:

The past quarter has been a busy one. We have had a busy winter preparing for another segment of our Fantasy Racing and for the introduction of new EZ Play games. We wrapped up our Montana Millionaire game and executed the change in the multi-state Wild Card game. In addition, we are currently working toward the upcoming changes to the multi-state Hot Lotto game.

We are continuing to see an overall increase in our game sales. All but three games have seen an increase over last year at this time. Scratch sales were 9.6% higher, Powerball was 41.8% higher, Wild Card increased by 4.7%, Montana Millionaire sales saw an increase of 7.8%, and Mega Millions sales were up by 3.0%.

The rest of the games have seen a decrease compared to last year at this time. Montana Cash sales were 25.2% lower, Hot Lotto sales were 10.6% lower, and 10 Spot sales dropped by 13.6%.

Overall, there was a large increase in operating revenue of 20.9% along with an increase in direct game costs of 22.0%. Combined with an 8.0% increase in operating expenses, the transfer for the second quarter was $4,456,288, which is $1,003,163 more than last year at this time. The percentage of transfer to revenue was 25.7% this quarter compared to 24.7% last year's second quarter.

Through innovative game themes and offering games with built-in name recognition (licensed property games), the Lottery has been successful in building its scratch sales and plans to introduce more games than initially planned before the end of FY13.

We are looking forward to a busy spring with another season of Fantasy Racing and the introduction of our new EZ play games.

Sincerely,

Angela Wong

Angela Wong
Director

MONTANA LOTTERY
STATEMENT OF NET ASSETS
DECEMBER 31, 2012 AND 2011
(Unaudited)

	Period Ended December 31, 2012	Period Ended December 31, 2011
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 5,531,903	$ 4,594,278
Receivables (Net)	2,680,394	2,762,346
Inventories	414,384	411,125
Other Current Assets	100	0
TOTAL CURRENT ASSETS	8,626,781	7,767,749
NONCURRENT ASSETS		
Computer, Furniture & Equipment	2,929,106	2,553,600
Leasehold Improvements	45,448	45,448
Equipment in Process	52,000	429,000
Accumulated Depreciation	(1,313,784)	(821,718)
Multi-State Reserve fund	1,745,536	1,602,153
TOTAL NONCURRENT ASSETS	3,458,306	3,808,483
TOTAL ASSETS	$ 12,085,087	$ 11,576,232
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	$ 528,279	$ 499,699
Estimated Prize Liability	3,396,761	3,757,046
Due to Primary Government	468	5,088
Transfer Obligations	4,456,288	3,453,125
Deferred Revenue	239,045	88,625
Compensated Absences	80,248	98,864
TOTAL CURRENT LIABILITIES	8,701,089	7,902,447
NONCURRENT LIABILITIES		
MUSL Prize Liability	1,477,183	1,477,614
Compensated Absences	90,678	69,629
Leases Payable	234,545	342,797
OPEB Liability	488,054	398,855
TOTAL NONCURRENT LIABILITIES	2,290,460	2,288,895
TOTAL LIABILITIES	10,991,549	10,191,342
NET ASSETS		
Unrestricted Net Assets	1,093,538	1,384,890
TOTAL NET ASSETS	1,093,538	1,384,890
TOTAL LIABILITIES AND NET ASSETS	$ 12,085,087	$ 11,576,232

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE QUARTERS AND SIX MONTHS ENDED DECEMBER 31, 2012 AND 2011
(Unaudited)

	Quarter Ended December 31, 2012	Quarter Ended December 31, 2011	Six Months Ended December 31, 2012	Six Months Ended December 31, 2011
OPERATING REVENUES:				
Scratch ticket revenue	$ 4,549,721	$ 4,190,671	$ 8,744,671	$ 7,976,751
Powerball revenue	5,852,845	3,770,654	10,421,847	7,348,280
Montana Cash revenue	909,220	1,020,037	1,579,852	2,246,520
Wild Card revenue	491,232	480,753	996,330	951,432
Hot Lotto revenue	834,571	863,980	1,516,000	1,696,187
MT. Millionaire revenue	2,600,000	2,412,740	2,600,000	2,412,740
MT. Sports Action revenue	2,467	2,490	3,330	3,235
Mega Millions revenue	826,055	896,680	1,816,222	1,763,079
10 Spot revenue	171,002	207,349	341,107	394,916
EZ Play revenue	994,504	137,176	1,912,209	137,176
License, permits, and misc	98,614	379	106,049	5,902
Total Operating Revenues	17,330,231	13,982,909	30,137,617	24,936,218
Less Direct Game Costs:				
Scratch ticket prize expense	2,960,741	2,539,622	5,714,402	4,992,146
On-line ticket prize expense	6,652,786	5,165,116	11,236,516	8,717,867
Retailer commission	1,027,235	828,438	1,802,923	1,469,590
Cost of tickets sold	195,908	310,642	519,066	613,671
Vendor fees	1,006,695	805,386	1,768,197	1,457,292
Total Direct Game Costs	11,843,365	9,649,204	21,041,104	17,250,566
Income Before Operating Expenses	5,486,866	4,333,705	9,096,513	7,685,652
OPERATING EXPENSES:				
Advertising	209,565	155,332	321,876	367,519
Advertising Production	54,078	40,620	89,493	76,035
Audit Fees	2,754	21,282	3,772	24,945
Bad Debts Expense	-	(538)	-	(816)
Communications	32,494	33,760	67,148	64,012
Contractual Services	30,565	21,232	47,651	47,611
Depreciation and Amortization	128,191	106,104	256,353	206,208
Interest	3,544	9,423	7,348	9,423
Administrative Service Fee	15,809	15,837	31,617	31,674
Multi-State Dues	99,135	6,690	99,135	38,800
Public Relations	5,169	277	62,363	22,783
Other	5,624	(4,514)	11,774	13,695
Personal Services	434,415	434,960	873,038	875,864
Repairs and Maintenance	172	7,613	12,977	17,515
Supplies and Materials	32,856	13,382	111,346	15,189
Travel	11,522	6,187	31,848	23,036
Utilities and Rent	40,954	54,958	80,941	118,811
Total Operating Expense	1,106,847	922,605	2,108,680	1,952,304
Operating Income	4,380,019	3,411,100	6,987,833	5,733,348
NONOPERATING REVENUES (EXPENSES)				
Interest earnings	1,551	2,928	4,883	4,558
Gain/Loss on sale of asset	-	(12,470)	-	(12,470)
Total Nonoperating Revenues(Expenses)	1,551	(9,542)	4,883	(7,912)
Income Before Operating Transfers	4,381,570	3,401,558	6,992,716	5,725,436
Operating Transfers Out - General Fund	(4,456,288)	(3,453,125)	(7,141,534)	(5,822,389)
Total Operating Transfers Out - General Fund	(4,456,288)	(3,453,125)	(7,141,534)	(5,822,389)
CHANGE IN NET ASSETS	(74,718)	(51,567)	(148,818)	(96,953)
Total Net Assets, Beginning of Period	1,168,256	1,436,457	1,242,356	1,481,843
TOTAL NET ASSETS, END OF PERIOD	$ 1,093,538	$ 1,384,890	$ 1,093,538	$ 1,384,890

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET FUND ASSETS AND RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS FOR THE SIX MONTHS ENDED DECEMBER 31, 2012
(Unaudited)

	Budget Fiscal Year July 1, 2012 - June 30, 2013	Actual Six Months Ended December 31, 2012 (Unaudited)	Actual as a Percent of Final Budget (%)
REVENUES:			
Scratch ticket revenue	$ 16,000,000	$ 8,744,671	54.65
Powerball revenue	18,000,000	10,421,847	57.90
Montana Cash revenue	3,300,000	1,679,852	50.90
Wild Card revenue	2,000,000	996,330	49.82
Hot Lotto revenue	3,000,000	1,516,000	50.53
MT Millionaire	2,600,000	2,600,000	100.00
MT Sports Action (Admin Fees)	5,000	3,330	66.60
10 Spot revenue	650,000	341,107	52.48
Mega Millions revenue	4,000,000	1,816,222	45.41
EZ Play revenue	2,200,000	1,912,209	86.92
License, permits, and miscellaneous	10,000	106,049	1060.49
Total Revenues	51,765,000	30,137,617	58.22
DIRECT GAME COSTS:			
Prizes - Scratch ticket	9,969,600	5,714,402	57.32
Prizes - Lotto games	18,232,500	9,811,266	53.81
Prizes - MT Millionaire	1,510,000	1,425,250	94.39
Retailer commissions	3,002,500	1,802,923	60.05
Ticket cost - scratch games	910,000	519,066	57.04
Ticket cost - vendor fees	2,803,473	1,768,197	63.07
Total Direct Game Costs	36,428,073	21,041,104	57.76
OPERATING EXPENSES:			
Advertising	620,000	321,876	51.92
Advertising Production	144,000	89,493	62.15
Audit Fees	51,370	3,772	7.34
Communications	119,793	67,148	56.05
Contractual Services	112,786	47,651	42.25
Interest	13,659	7,348	53.80
Administrative Service Fee	63,250	31,617	49.99
Multi-State Dues	49,000	99,135	202.32
Public Relations	50,000	62,363	124.73
Other	45,832	11,774	25.69
Personal Services	1,800,905	873,038	48.48
Repairs and Maintenance	33,850	12,977	38.34
Supplies and Materials	164,172	111,346	67.82
Travel	50,400	31,848	63.19
Utilities and Rent	235,248	80,941	34.41
Equipment	27,077	16,500	60.94
Total Operating Expenses	3,581,342	1,868,827	52.18
Operating Income	11,755,585	7,227,686	61.48
NONOPERATING REVENUES (EXPENSES):			
Interest Earnings	10,000	3,864	38.64
NET INCOME (BUDGETARY BASIS)	$ 11,765,585	$ 7,231,550	61.46
RECONCILIATION OF BUDGETARY/GAAP BASIS:			
Capitalized equipment purchases	27,077	16,500	60.94
Adjustment for depreciation expense	(512,648)	(256,353)	50.01
MUSL interest earnings	2,000	1,019	50.95
Total Reconciling Items	(483,571)	(238,834)	
NET INCOME (GAAP BASIS)	$ 11,282,014	$ 6,992,716	61.98

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY

ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT

FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(Unaudited)

	SCRATCH	POWERBALL	MONTANA CASH	WILD CARD	HOT LOTTO	MT MILLIONAIRE	MEGA MILLIONS	10 SPOT	EZ PLAY	MT SPORTS ACTION	ADMIN
REVENUES:	$ 8,744,671	$ 10,421,847	$ 1,679,852	$ 996,330	$ 1,516,000	$ 2,600,000	$ 1,816,222	$ 341,107	$ 1,912,209	$ 3,330	$ 106,049
DIRECT GAME COSTS:											
Prize Expense	5,714,402	5,102,645	879,475	521,977	735,115	1,425,250	848,524	185,252	1,525,378	0	12,900
Retailer Commissions	738,469	521,214	84,026	49,841	75,832	130,000	90,856	17,074	95,611	0	0
Cost of Tickets Sold	519,066	0	0	0	0	0	0	0	0	0	0
Vendor Fees	505,245	615,084	103,370	63,332	93,821	150,804	106,895	19,703	109,843	0	0
NET OPERATING REVENUE	1,267,489	4,182,904	612,981	361,180	611,132	893,946	769,947	119,078	181,377	3,330	93,149
OPERATING EXPENSES:											
Advertising	40,806	34,388	29,347	29,347	29,347	35,252	34,511	29,347	29,347	28,921	1,265
Advertising Production	11,569	12,041	5,194	5,194	5,194	17,996	13,889	10,625	4,250	3,541	0
Audit Fees	0	0	0	0	0	0	0	0	0	0	3,772
Bad Debts	0	0	0	0	0	0	0	0	0	0	0
Communications	26,200	0	0	0	0	0	0	0	0	0	40,948
Contractual Services	0	0	0	328	0	12,799	0	0	0	2,479	32,045
Depreciation and Amortization	48,705	23,072	23,072	17,945	17,945	23,072	7,691	7,691	7,691	30,762	48,707
Interest	0	0	0	0	0	0	0	0	0	0	7,348
Administrative Service Fee	7,904	3,162	2,846	2,213	2,213	1,897	949	949	949	1,897	6,640
Multi-State Dues	0	58,757	0	9,656	16,179	0	14,543	0	0	0	0
Public Relations	7,524	1,057	1,057	1,057	1,057	0	1,057	1,057	1,057	0	47,440
Other	0	0	0	0	0	0	0	0	0	0	11,774
Personal Services	218,260	87,304	78,573	61,113	61,113	52,382	26,191	26,191	26,191	52,382	183,338
Repairs and Maintenance	0	0	0	0	0	0	0	0	0	0	12,977
Supplies and Materials	2,902	3	3	3	3	0	0	0	0	0	108,433
Travel	5,651	807	807	807	807	0	807	807	807	0	20,548
Utilities and Rent	393	99	99	99	99	0	99	99	99	0	79,856
TOTAL OPERATING EXPENSES	369,914	220,690	140,998	127,762	133,957	143,398	99,737	76,766	70,391	119,982	605,091
OPERATING INCOME	897,575	3,962,214	471,983	233,418	477,175	750,548	670,210	42,312	110,986	(116,652)	(511,942)
NONOPERATING REVENUES (EXPENSES)											
Interest Earnings	0	0	0	0	0	0	0	0	0	0	4,883
TOTAL NONOPERATING REVENUES (EXPENSES)	0	0	0	0	0	0	0	0	0	0	4,883
NET INCOME BY PRODUCT	$ 897,575	$ 3,962,214	$ 471,983	$ 233,418	$ 477,175	$ 750,548	$ 670,210	$ 42,312	$ 110,986	$ (116,652)	$ (507,059)
PROFIT AS A % OF REVENUE	10.26%	38.02%	28.10%	23.43%	31.48%	28.87%	36.90%	12.40%	5.80%	N/A	N/A

NOTE: THIS IS 'SIX MONTHS' ACTIVITY AND THEREFORE SHOULD NOT BE INTERPRETED TO SHOW HOW OUR PRODUCTS HAVE PERFORMED IN PAST YEARS OR WILL PERFORM IN THE FUTURE.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Comprehensive Annual Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting entity.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Property and equipment. Property and equipment are recorded at cost. Donated property and equipment are recorded at their estimated fair market value at the date of donation. Ordinary maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts. Gain or loss on disposal is reflected in non-operating revenues and expenses. Depreciation and amortization are calculated on a straight-line basis over estimated useful lives of three to ten years. The Lottery conforms to the State of Montana capitalization threshold for capitalizing property and equipment as well as buildings and building/land improvements. The threshold for capitalizing property and equipment is $5,000 and the threshold for capitalizing buildings/land improvements is $25,000.

Revenue Recognition. Lottery scratch ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Ticket sales for lotto games Powerball, Wild Card, Montana Cash, Hot Lotto, Montana Millionaire, Mega Millions, and 10 Spot are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing.

Ticket sales for Fantasy Sports games are based upon MCA 23-4-302 and an interagency agreement between the Lottery and the Board of Horse Racing.

Classification of Revenues. The Lottery has classified its revenues as either operating or non-operating according to the following criteria:

Operating revenues – include activities that have characteristics of exchange transactions, including (1) ticket sales, net of returns, and (2) retailer license fees and administrative fees in relation to selling lottery tickets.

Non-Operating revenues – include activities that have the characteristics of non-exchange transactions, such as gifts and other revenue sources that are defined as non-operating revenues by GASB No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting," and GASB No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." Types of revenue sources that fall into this classification are investment income, and gain or loss on disposition of assets.

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the quarter and six months ended December 31, 2012 was $103,006 and $225,947, respectively.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the quarter ended December 31, 2012, promotional credits resulted in a revenue reduction of approximately $4,883 and an expense reclassification of approximately $3,609. For the six month ended December 31, 2012, promotional credits resulted in a revenue reduction of approximately $11,125 and an expense reclassification of approximately $8,023.

Prizes. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto prizes are recorded based on the predetermined prize structure for each individual game. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. The unclaimed prize amounts for the Montana Lottery lotto games are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all Montana Lottery games is represented in the table below.

	Quarter Ended 12/31/12	Quarter Ended 12/31/11	Year To Date 12/31/12	Year To Date 12/31/11
Lotto	$166,693	$112,543	$277,580	$230,064
Scratch	$ 0	$331,834	$ 0	$331,834
TOTALS	$166,693	$444,377	$277,580	$561,898

2. SUMMARY OF ACCOUNTS

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash on deposit in revolving account with a non-state financial institution and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Cash and cash equivalents consist of the following:

	December 31,	
	2012	2011
Short-term investment pool	$4,206,727	$2,796,473
Cash on deposit with State Treasurer	1,315,176	1,793,784
Cash in revolving deposit account	10,000	4,021
TOTALS	$5,531,903	$4,594,278

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was $27,047 at December 31, 2012 and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. Receivables include $2,973,872, representing amounts due the Lottery for tickets purchased by retailers. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables at December 31, 2012, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to January 1, 2013. The allowance for ticket returns is $311,547 at December 31, 2012. The return of vendor fees related to the allowance for returns is $18,069.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory includes scratch tickets valued at $363,196 stored in the warehouse, at retailers prior to being activated by the retailer, and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. At year end, supplies inventories totaled $51,188. These inventories are also recorded at cost using the specific identification method.

Property and Equipment. A summary of property and equipment for the Lottery is as follows:

	June 30, 2012	Additions	Deletions	December 31, 2012
Leasehold Improvements	$ 45,448	$ -	$ -	$ 45,448
Furniture & Equipment	$ 2,899,606	$ 29,500	$ -	$ 2,929,106
Accumulated Depreciation	$(1,057,431)	$(256,353)	$ -	$(1,313,784)

Other Current Assets. Other current assets include the following:

	December 31, 2012	December 31, 2011
Prepaid Expenses	$ 100	$ -
Employee Advances	-	-
TOTALS	$ 100	$ -

The prepaid amount consists of $100 for a down payment on booth fees for upcoming summer fairs.

Transfer Obligations. The account "Transfer Obligations" is $4,456,288 payable to the General Fund at December 31, 2012.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's liability for compensated absences is detailed below.

Balance June 30, 2012	Net Leave Earned/(Used)	Balance December 31, 2012
$210,891	$(39,965)	$170,926

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of scratch tickets activated by the retailers and the face value of lotto tickets sold. Section 23-4-302 (5)(b)(i), MCA establishes a 3.99% commission of the face value of Fantasy Sports tickets sold. In addition retailers can earn bonus commissions on tickets sold based on incremental sales of scratch tickets. For the quarter and six months ended December 31, 2012 retailers earned bonus commissions of $159,278 and $288,308. For the quarter and six months ended December 31, 2012 total commissions were $1,027,235 and $1,802,923.

OPEB (Other Post Employment Benefits) Implicit Rate Subsidy LT. Effective for Fiscal Year End 08, GASB Statement 45 and the reporting requirements for the "implied rate subsidy" required the State of Montana to book substantial liabilities. The liability is a result of the state's requirement to allow retired employees to remain in the retirement plan after retirement. This results in an implicit rate subsidy since retirees pay the same amount as active employees. "Actuaries Northwest" prepared the report for the State of Montana to calculate the Annual Required Contribution under the Governmental Accounting Standards Board (GASB). The allocation is made based on the fiscal year's benefits expense and the number of full time employees for an agency.

The Lottery's OPEB obligations for 2012 and 2011 are as follows:

Year ended June 30,	2012	2011
Annual Required Contribution	$ 92,717	$ 95,476
Adjustment to annual required contributions	-	-
Annual OPEB cost	$ 92,717	$ 95,476
Contributions made	-	-
Increase to net OPEB obligation	$ 92,717	$ 95,476
Net OPEB obligation – beginning of year	$ 395,337	$ 299,861
Net OPEB obligation – end of year	$ 488,054	$ 395,337

3. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services, supplies, and materials from other state agencies. These services and materials are detailed below for the fiscal quarter ended December 31, 2012:

Insurance	$ 6,031
Warrant Writing Services	298
Payroll Services	3,722
Audit Fees	2,931
Computer Fees	28,606
Printing	705
State Accounting System Support	1,298
Supplies & Materials	7,254
Mail Processing Fees	5,839
Telecommunications	8,133
Other	702
Administrative Service Fees	31,617
TOTAL	$ 97,136

4. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the quarter ended December 31, 2012, the prize expense of $9,613,527 is 55.8% of net Lottery ticket revenue of $17,229,150. For the six months ended December 31, 2012, the prize expense of $16,950,918 is 56.4% of net Lottery ticket revenue of $30,028,238.

5. TRANSFER TO STATE GENERAL FUND

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Net revenue must be transferred quarterly from the enterprise fund established by 23-7-401 to the State General Fund." For the quarter ended December 31, 2012, the net revenue payable to the State General Fund totaled $4,456,288.

6. MULTI-STATE LOTTERY

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, Wild Card, Hot Lotto, and Mega Millions are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Reserve Fund with a balance of $1,745,536 and $1,602,153 as of December 31, 2012 and 2011, respectively, is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

	December 31, 2012	December 31, 2011
Powerball Prize Reserve Account	$ 515,423	$ 682,526
Powerball Set Prize Reserve Account	240,688	170,632
Powerball Unreserved Account	268,353	124,539
Wild Card Prize Reserved Account	213,240	200,064
Hot Lotto Set Prize Reserve Account	358,605	354,887
Mega Millions Prize Reserve Account	149,227	69,505
Total	$1,745,536	$1,602,153

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid. Interest earned on the Lottery's share of the fund, represented by the Unreserved Account, would be returned to the Lottery upon leaving MUSL. The amounts in the Unreserved Account may be used at the MUSL Board's discretion.

The Powerball Set Prize Reserve Account is used to fund prize payments for current drawings. Since the Powerball game has fixed prizes, it is often necessary to draw from this reserve to fund payment of prizes at the fixed amount. This account would be returned to the Lottery upon withdrawal from the Powerball Game.

The Lottery contributes to these reserve funds through the 50% set aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve funds accumulated since the start of the Powerball game. Payments made to this fund are considered a portion of prize expense associated with the game.

The Powerball Unreserved Account is a separate account used by a participating Lottery to have MUSL hold funds due to the Lottery. Balances in this account are created when any MUSL jackpot expires and goes unclaimed. Each Lottery is then refunded its pro rata share of the jackpot based on sales during the accumulation of that specific jackpot. This money is then invested in U.S. Treasury securities until withdrawn. Interest earned on the Lottery's share of the fund is added to the Unreserved Account on a quarterly basis. The amount in the Unreserved Account has limited uses and are set and approved by the Board with the stipulation that requests to use the funds are accompanied by certification from the requesting Board Member that the payment is made in conformance with state or jurisdiction law and is related to a MUSL activity.

The Wild Card Reserve Account is to be used in the event of an unanticipated prize claim on the Wild Card game. This account is also administered by MUSL and would be returned to the Lottery one year after the Wild Card Product Group of Idaho, Montana, South Dakota, and North Dakota is disbanded. The Lottery contributes to this account through the 55% set aside for prizes. Payments made to this fund are considered a portion of prize expense related to the Wild Card game.

The Hot Lotto Set Prize Reserve Account is administered by MUSL and is to be used only in the event of unanticipated prize claims. Like other MUSL games the reserve amount would be returned to the Lottery one year after withdrawal from the Hot Lotto game. The Lottery contributes to the reserve through the 50% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game.

The Mega Millions Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Mega Millions game, assuming that no unanticipated prize claims have been paid. The Lottery contributes to the reserve through the 51% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game. The Lottery had just started cross-selling Mega Millions during the fiscal year end 2010.

7. GAMES

Currently, the Montana Lottery games are scratch ticket games, seven lotto games referred to as Powerball, Montana Ca$h, Wild Card, Hot Lotto, Mega Millions, 10 Spot, and Montana Millionaire, a limited edition lottery game. The lottery is facilitating Fantasy Sports Games on behalf of the Board of Horse Racing. Currently the Lottery is selling the Montana Sports Action Fantasy Football and the Racing games.

Scratch ticket games provide players the opportunity to win instantly by scratching latex covering to reveal a prize.

The Powerball game allows players the chance to win a minimum pari-mutuel jackpot of approximately $20 million. A player must match all 6 numbers to win the jackpot; players win prizes ranging from $3 to $200,000 for matching less than all 6 numbers. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional bet, the Power Play option provides non-jackpot winners the chance to multiply their prize amount by a factor of two through five.

The Montana Ca$h game allows players the chance to win a minimum pari-mutuel jackpot of $20,000. Players select 5 numbers from a field of 37 and must match at least 3 out of 5 to win a prize. Matching 3 of 5 wins $5 and 4 of 5 wins $200. The drawing is conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Wild Card game allows players the chance to win a pari-mutuel jackpot, with a guaranteed minimum of $200,000. Players select 5 numbers from a field of 33 plus one of 16 face cards and must match all 5 numbers and the wild card to win the jackpot; players win prizes from $1 to $6,000 for matching less than all 5 numbers and/or the wild card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers and the wild card, the jackpot rolls over to the next drawing to create a progressive jackpot.

Hot Lotto allows players the chance to win a pari-mutuel jackpot with a guaranteed minimum of $1 million. Players choose 5 numbers from a field of 39 plus 1 Hot Ball number from a field of 19; the first 5 numbers and the Hot Ball must be matched to win the jackpot. Players can win prizes ranging from $2 to $10,000 by matching less than all 5 numbers and/or the Hot Ball. If no ticket wins the jackpot, it rolls over to the next drawing to create a progressive jackpot. Drawings are held twice weekly on Wednesday and Saturday nights. In January 2008, the Lottery added the Sizzler

option to the Hot Lotto game. For an additional bet, the Sizzler option provides non-jackpot winners the chance to multiply their prize amount by three.

Mega Millions is a multi-state game that allows players to win a minimum pari-mutuel jackpot starting at $12 million. Mega Millions went on sale March 1, 2010 in Montana. To win the jackpot, players must match all six numbers drawn; other prizes range from $2 to $250,000. Drawings are held each Tuesday and Friday. Mega Millions has a Megaplier option which multiplies non-jackpot prizes by two, three, or four. The Megaplier options costs $1 extra per play.

10 Spot, which went on sale February 1, 2010, is a Montana-only, twice daily game. Players select ten numbers from one through eighty. The Lottery draws twenty numbers, and players win by matching ten, nine, eight, seven, six, five, or none of the numbers drawn. Prizes range from $2 to $25,000.

Montana Sports Action is a product line introduced by the Lottery in August 2008 on behalf of the Board of Horse Racing. Montana Sports Action Fantasy Football was the first game within the Fantasy Sports Games to begin. Players choose five eligible offensive players and a defensive unit from the official roster of professional football players and teams, to create their own team. The players then choose a play amount ($5, $10, $20, $50, or $100) which determines the shares the player is eligible to win should their team have one of the three highest point totals for the week.

After completion of each week's professional football games, points are assigned to football players and defensive units based on their performance to determine the Lottery players' team's performance. Prizes paid must be 74% of sales for the week. How much the player wins is determined by their team's points and their share ($5 per share). Ticket sales are allowed each week of the professional football season beginning Tuesday morning for that week's games with no advanced purchasing allowed.

Fantasy Racing was introduced in February 2009, and follows the NASCAR® Sprint Cup Series. Fantasy Racing teams are created by selecting a driver from the top nine-ranked drivers for the week; three drivers ranked from ten through 34; and one driver ranked 35 or above. The sixth element in a player's Fantasy Racing team is the number of yellow-flag cautions the player believes might occur in that week's race. Players also choose the number of shares they wish to buy ($5, $10, $20, $50 or $100). Like Fantasy Football, the number of shares determines the amount of the prize each winning ticket will win. After each Sprint Cup race, points are assigned to each driver's performance, and teams with the top three point totals win. Ticket sales begin each week on Monday.

Montana Millionaire began on November 1, 2009 with the final drawing on January 1, 2010. The tickets were sold sequentially across the state with 1 to 150,000 available. There were 400 - $50 instant win prizes for every 375th ticket purchased. The final drawings were held on January 1, 2010 and consisted of one $1 million dollar top prize, five $100,000 prizes, and five $10,000 prizes. This game will begin again on November 1, 2012 with the final drawing on approximately January 1, 2013. The number of tickets available will be 130,000 with two early bird prizes of $10,000 being awarded in late November and mid December.

8. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Scratch Tickets. On June 27, 2008 the Montana Lottery Commission approved the award of a five-year contract with Scientific Games International (SGI) for the provision of scratch tickets. The contract is for five years with the option for two additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure.

SGI, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of $3,000,000. The Lottery may terminate this contract by providing proper notification to Scientific Games.

On-line Services. On October 11, 2005, the Lottery signed a seven-year contract with Intralot, Inc. of Duluth, GA to provide an on-line gaming system and the associated services beginning March 31, 2006. The contract requires Intralot to provide new terminals to all retailers with the associated software and communications. Payment under the contract is based on 5.8% of net weekly Lottery sales of lotto and scratch games. On August 18, 2008 an addendum was signed to provide services for the Fantasy Sports games at 3% of net weekly Lottery sales up to $2,999,999 of Montana Sports Action games. The contract currently has a termination date of March 30, 2016.

9. LOTTO*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL and TRI-WEST LOTTO games are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the Anniversary date of the win.

On January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling $1,740,000. The first annual payment of $87,000 was made on February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America jackpot prize of $3,000,000. The first annual payment of $150,000 was made on

May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for $7,360,000. The first annual payment of $368,000 was made February 15, 1991. On November 23, 1991 a fourth jackpot prize was awarded totaling $46,967,738.57. The first annual payment of $2,355,738.57 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totaling $2,000,000. The first annual payment of $100,000 was made on April 27, 1992.

On July 6, 1994 the Montana Lottery awarded its first Tri-West Lotto jackpot prize totaling $700,565. The first annual payment of $35,000 was made on July 26, 1994.

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling $31,401,655.99. The first payment of $1,571,655.99 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling $11,000,000. The first annual payment of $550,000 was awarded on April 18, 1997.

On March 27, 1999 the Montana Lottery had a Powerball jackpot winner. The prize was $35.1 million ($19.35 million cash option). The winner chose the cash option and was paid a lump sum in June 1999.

On June 23, 2010 the Montana Lottery awarded its fourth Powerball jackpot prize. The total jackpot was $96,856,406 and was split between another ticket in Ohio. Half of the jackpot, which was again split between two winners in Montana, totaled $48.5 million (25.08 million cash option). The winners chose the cash option and were paid a lump sum in July 2010.

As of December 31, 2012, the combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Powerball and Tri-West Lotto winners was $5,375,000. Total annual payments due as of December 31, 2012 are as follows:

FYE	
2013	550,000
2014	2,155,000
2015	2,120,000
2016	550,000
	$ 5,375,000

10. LEASES/INSTALLMENT PURCHASES PAYABLE

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a lease agreement that is effective September 2007 through August 2017. The monthly lease payment is $11,775 through August 2013. The base rate will increase 3% annually.

Capital Lease. The Lottery has contracted with its vendor to lease equipment for the remaining life of its contract with them. Obligations under this capital lease/installment purchase at December 31, 2012 are as follows:

FYE	
2013	42,395
2014	81,677
2015	77,528
2016	55,423
Total Minimum Payments	257,023
Less: Interest	(22,478)
Present value of Minimum Payments	$ 234,545

11. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the State of Montana implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. The Lottery participates in two investment pools: the Multi-State Lottery Association (MUSL) reserve accounts and the State of Montana's Short Term Investment Pool (STIP). There are four types of risk that must be disclosed. These risks are defined below, followed by their applicability to each of the investment pools.

Multi-State Lottery Association The MUSL investment policy for prize reserve and unreserved funds states that permitted investments "include direct obligations of the United States government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States government, and mutual funds of approved investments".

Short-term Investment Pool All short-term funds are held in the State's Short Term Investment Pool (STIP) administered by the Board of Investments (BOI). STIP is an external 2a-7 like pool.

Credit risk is defined as the risk that an issuer of an investment will not fulfill its obligation, i.e., not make timely principal and interest payments. The STIP securities have credit risk as measured by major credit rating services, however, the pool is not rated. The Lottery does not have a policy regarding credit risk

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Per MUSL, the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust and include 58% in securities held as obligations of the U.S. Government and are not considered to have credit risk. The other 42% of the prize reserves are invested in Federal Agencies and have an AAA credit quality rating. The Lottery does not have any authority or a policy regarding the investment portfolios.

Custodial credit risk is the risk that the Lottery would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party in the event of the failure of that party. Custodial credit risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are held in the Montana Winners Trust using policies set forth by the MUSL board regarding policies for the type of securities, as well as the custody, trading and the use of proceeds of the securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Because STIP is a pooled investment, this risk does not apply. Because the MUSL reserves are also a pooled investment, this risk does not apply to them either.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are invested through the Montana Winners Trust in the Morgan Stanley Government Portfolio Funds with daily liquidity and therefore have no interest rate risk. The MUSL board's investment policy limits the individual security and the portfolio's maturity. As of June 30, 2012, the duration for the U.S. Government Treasury securities was 0.49 years.

12. EMPLOYEE RETIREMENT PLAN

All Lottery employees hired are, initially, members of the Public Employees Retirement System – Defined Benefit Retirement Plan (PERS-DBRP). PERS-DBRP is a defined benefit cost sharing, multiple-employer public retirement system established on July 1, 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated. This plan provides retirement, disability and death benefits to substantially all public employees and their beneficiaries not covered by another public plan.

New hires have a 12 month window during which they may choose to transfer to the Public Employees Retirement System – Defined Contribution Retirement Plan (PERS-DCRP) or remain in the current PERS-DBRP. Members may not be members of both plans. The choice is irrevocable. Members of the DCRP direct their contributions and a portion of their employer's contributions among the offered investment options. The remaining portion of their employer's contributions is used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP, and to fund an employee education program.

-Alternative accessible formats of this document will be provided upon request.